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Division of Public Utilities

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MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Artie Powell, Director
Jamie Dalton, Utility Analyst II
Charles Peterson, Technical Consultant
Abdinasir Abdulle, Technical Consultant

Date: September 3, 2009

Subject: Docket No. 09-035-T14, Schedule 37: Avoided Cost Purchases from Qualifying Facilities

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RECOMMENDATION

The Division recommends adoption of the rates as specified in the Company's proposed Schedule 37 attached to its filing.

ISSUE

On August 4, 2009 Rocky Mountain Power ("Company") filed updated avoided costs for Electric Service Schedule No. 37. This schedule provides the standard avoided cost rates for purchases from qualifying facilities ("QFs") under one megawatt in size. On August 4, 2008, the Commission issued an Action Request to the Division requesting response by August 27, 2009 which was later extended to September 3, 2009.This memo provides the Utah Division of Public Utilities' ("Division") response to that action request.

DISCUSSION

The Company's August 4, 2009 filing provides an updated calculation of avoided costs for Electric Service Schedule 37. The update is being provided in response to the Commission's order in the recent net metering docket, Docket No. 08-035-78. Under that Commission order, the value or credit for net excess generation should be set for large commercial customers from avoided cost to a tariff provision permitting an annual individual customer choice between an avoided cost based rate consistent with the Schedule 37 avoided cost determination and an alternative rate identified and updated annually in the tariff filed with the Commission, calculated by dividing Rocky Mountain Power's Utah revenue per schedule by the schedule's corresponding kilowatt hours using data from the previous year's FERC Form 1. In a later Commission Order of the same Docket dated February 12, 2009, the Commission directed the Company to update the avoided cost pricing in Schedule 37 annually, concurrent with the approval and establishment of rates for larger commercial and industrial customers based on the FERC Form 1 method.

Schedule 37 establishes standard prices for co-generation facilities of 1000 kilowatts (kW) or less and for small production facilities of 3,000 kW or less. The Schedule 37 Avoided Cost methodology, approved in Docket Nos. 94-2035-03, 03-035-T10, and 06-035-T06, differentiates between periods of resource sufficiency and deficiency. "Resource deficiency is marked by resource deficit in annual energy, and both summer and winter peak loads." In general, Schedule 37 avoided costs during a deficient period are estimated as the avoided capital and energy costs of a proxy plant. During a period of sufficiency, Schedule 37 avoided costs are estimated as the difference between two runs of the Company's dispatch model first with the Company's existing resources and second with the addition of a 10 MW zero cost resource.

The Company represents that from 2009 to 2013, the system has sufficient energy and from 2014 and beyond, the system is energy deficient. Summer peak capacity shows a deficit starting in 2010. Thus, avoided cost from 2009 through 2013 is calculated as the cost avoided by a 10 MW zero cost resource plus avoided summer capacity cost. The avoided summer capacity cost is based on the fixed cost plus variable operation and maintenance cost of a Simple Cycle Combustion Turbine ("SCCT"). The theoretical costs of a Combined Cycle Combustion Turbine ("CCCT") with duct-firing are used beginning in 2014 and for the remaining years of the calculation. For comparison purposes, the costs are then levelized assuming a given capacity factor over a 20-year contract starting in 2009. The levelized price, assuming an 85 percent capacity factor, is $64.16 per MWh. This is 19.6 percent higher than the current levelized rate of $53.64 per MWh.

Any estimation of avoided costs requires assumptions regarding the Company's future loads and resources, the least-cost plant type, cost and characteristics of that plant, inflation and discount rates, natural gas prices, and wholesale electric prices. The Division reviewed these assumptions and inputs to ensure that they are consistent with the Company's integrated resource plan and result in reasonable measures of avoided costs over the 20-year time horizon. The Division found that these assumptions and inputs are generally consistent with the Company's IRP with the exception of a few inputs that were updated for known changes.

The Company used the February 2009 load forecast instead of the November 2008 load forecast. Furthermore, the Company owned wind resources and long term sales and purchase contracts were updated to include information available as of May 2009 when the IRP was filed. These changes include power purchase agreements with the Los Angeles Department of Water and Power (LADWP) and CoGen II QF and the addition of the McFadden and Three Buttes Wind resources. The power purchase agreement with the LADWP is not the recent agreement for providing power to the Milford Wind Station. It is a settlement agreement entered into on March 27, 2009 between PacifiCorp, on the one hand, and LADWP and Intermountain Power, on the other hand. Enough information regarding the terms and conditions of this contract was provided in the 2009 general rate case to allow the Division to conclude that the inclusion of this contract into the avoided calculation is appropriate.

CONCLUSIONS

The Division has reviewed the Company's proposed avoided costs for Schedule 37 and concludes that the methodology used to arrive at the avoided costs are consistent with the Commission approved method. The Division also concludes that the inputs used are either consistent with the assumptions filed in the 2008-IRP or are consistent with anticipated updates. Therefore, the Division recommends that the Commission approve the proposed avoided costs contained in the Company's filing.

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